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Chapter 11

Organizational Culture, Performance, and Competitive Advantage: What Next?

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For over 20 years, beginning in the late 1970s and early 1980s, the topic of organizational culture has been a key area of interest for managers and scholars worldwide.¹ Much of the literature has focused on defining the term “organizational culture,”² and its relationship to an organization’s performance³ and competitive advantage.⁴ In particular, research has examined its importance, its links with other variables that may influence performance, and how managers can use corporate culture to create and build successful organizations. In this chapter, we present an overview of selected past research on organizational culture and how it is viewed as a contributor to performance and competitive advantage. We also identify selected areas where existing research has not been fully pursued, for example, how to sustain culture over time, and offer observations on promising directions for future research. Building upon these observations, we offer a simple framework that categorizes ways that organizational culture and performance or competitive advantage may be related and that may suggest new areas for research. In this discussion, we seek to contribute

to management's comprehension and awareness of organizational culture as a source of competitive advantage, while acknowledging that links between culture and advantage may sometimes appear to be loose.

WHAT IS ORGANIZATIONAL CULTURE?

During the last few decades of research on organizational culture, one avenue of inquiry has been the development of a concrete definition of organizational culture, its characteristics, and its development and application in organizations. As might be expected, many different definitions of culture and its influence in an organizational environment have emerged.⁵ Specifically, organizational culture has been defined as "a complex set of values, beliefs, assumptions and symbols that define the way in which a firm conducts its business,"⁶ "a multidimensional control system to measure behaviors,"⁷ and "a pattern of shared and stable beliefs which develop within an organization over time."⁸ These definitions imply that an organization's culture is a unique phenomenon with multiple layers, and can help frame an organization in specific ways. Although initially looking at culture as a "set of shared meanings," scholars subsequently began to understand it had multiple levels. Schein discussed three levels of organizational culture: artifacts and creations, values, and basic assumptions.⁹ Although the three levels have specific characteristics that make them visible (e.g., technology) or invisible (e.g., assumptions and values) to organizational members or outsiders, all three levels need to be *shared* by members to create an organizational culture. Schein's initial model was modified by other scholars such as Hatch, who added another key level, symbols.¹⁰ Fiol further delineated culture as an unobservable (culture, norms) system of meaning.¹¹ These changes and additions over time are important as they further develop the ideas and models underlying culture, making them more adaptable and suggesting how the various levels of culture are linked. For example, the establishment of culture can be viewed as manifesting, realizing, symbolizing, and interpreting the four levels of artifacts/creations, basic assumptions, values, and symbols.¹² These four factors could be set within an organization in a proactive or a reactive way. In other words, management could set and reinforce the key factors or the factors could develop on their own, almost organically, with little direct guidance from management. Regardless of how the elements come into play, only when they become "recognizable values" can they be internalized by members and become part of the organization's foundation.

Other early research focused on external adaptation or ways to define and describe the types of organizational governance reflected in culture. Based on their observations of Japanese firms, Wilkins and Ouchi characterized culture in terms of clans, bureaucracies, or markets.¹³ They

argued that the clan culture, which they considered most likely to be associated with high levels of organizational performance, demonstrates goal congruence, shared social knowledge through a long history, collective member interaction, and high loyalty to the organization. In contrast, bureaucracy cultures are the simplest form of organizational governance and operate merely through a "sharing of certain social understandings." They described market cultures as representing a more advanced form of corporate governance since members share a more specific common understanding about the organization, such as competition, prices, and ideas. Other scholars have argued that organizational culture is an important factor in governing how members of an organization interact with each other within and outside of the organization, and that those interactions and behaviors result in the organization's identity.¹⁴

Culture has long been considered to be a variable that is a key to establishing a competitive advantage,¹⁵ and intuitively, this would suggest that it could have an influence on organizational performance.¹⁶ However, research is inconclusive on the questions of if and how management can actively influence the development and implementation of culture to improve the overall economic and financial performance of the organization.¹⁷ A deeper understanding how culture develops is thus critical in determining whether and how it may relate to performance and competitive advantage.

DEVELOPMENT OF ORGANIZATIONAL CULTURE

Just as there are many different definitions of corporate culture, the research literature offers different processes that organizations have used in the development of culture. For instance, Wilkins and Ouchi argued that four factors (goal congruence, shared social knowledge, collective member interaction, absence of institutional alternatives) influenced the development of clan cultures and contributed to the formation of a common "social understanding" within an organization that would be passed along to future employees. Conversely, an organization with high employee turnover or that lacked stable membership or a shared corporate history, may be unable to sustain a social understanding over time. Other scholars have identified internal factors that contribute to the development of culture. O'Reilly described the development as a process with four mechanisms that ultimately lead to employee commitment and an organizational culture.¹⁸ First, an organization that asks for and requires participation from its employees will involve them and make them feel valued. Additionally, management must take symbolic actions to support the development of a strong organizational culture. Such "clear, visible actions" include, for example, modeling the values that are important (e.g., integrity, transparency, respect for others), and in turn spread and reinforce the cultural

values within the organization. Third, information shared within the organization (as well as outside the organization), whether it is from employees or from management, needs to be consistent, thereby reducing the potential for contradiction or ambiguity. Finally, a comprehensive reward system needs to focus on the right mix of money, recognition, and approval to keep employees motivated.

Wilkins and Ouchi and O'Reilly presented two examples of the ways in which scholars view the development and implementation of culture. Whereas Wilkins and Ouchi described more basic influences based mostly on their definition of the "clan culture," O'Reilly focused in more depth on internal factors such as management and communication, rewards, and employee beliefs and attitudes. Other scholars have also identified a firm's history and heritage as important¹⁹ and have pointed out that a shared mindset is crucial in developing the organizational culture.²⁰ Additionally, management practices can have an important influence on culture development and sustainability. Although management's beliefs, values, and propositions are essential,²¹ these need to be consistent and encourage leadership at all levels of the organization.²² Only if employees are empowered will organizational norms and values be shared within the organization, and in communication with people outside the organization. The empowerment of employees is particularly important since management needs to ensure that they are not the only ones spreading and reinforcing the organizational culture but that employees also exhibit and convey the "shared set of practices and beliefs."²³ Human resource practices thus also need to support the spread of culture within an organization.²⁴ During the hiring process, for example, the opportunity exists not only for applicants to learn about the hiring organization's culture and to decide whether it is consistent with their values and needs but for the interviewer to make the same assessment of the candidate. By exhibiting and spreading the culture at different organizational levels, a shared mindset grows, which further cements culture development. Management must, however, demonstrate a capacity for change within the organization to leave room for modification of the culture and to ensure it is aligned with the business mission and strategy.

WHAT MAKES STRONG ORGANIZATIONAL CULTURES?

Whenever scholars discuss links between organizational culture and financial performance or competitive advantage, the notion of "strong cultures" emerges. Though the relationship between culture and performance has been analyzed and interpreted in different ways,²⁵ a strong organizational culture has often been considered to be related to improvements in performance²⁶ and organizational effectiveness.²⁷ Whereas some scholars argue that a strong culture is "predictive of short-term future company

performance,²⁸ others link it to overall growth rather than to profitability²⁹ or long-term performance.³⁰ Strong culture has also been associated with the demise of companies and entire industries.³¹ Some have argued that organizational culture could be a “driving force behind continued success in American businesses,”³² extending the influence of culture beyond individual firms to an industry context. Much of the research findings come from an era (1980–1990s) when Japanese firms were dominant (and hence a lot of research hailed their approaches to culture) and U.S. firms were becoming stronger.³³ Since then, however, the performance of Japanese firms has fallen. Does this perhaps signal a different relationship between performance and culture?

Since strong cultures were traditionally seen as influencing organizational performance, the concept of strong culture is relevant to any discussion about culture. So what are the characteristics of a strong culture and how has it been defined by scholars? Just as there are a variety of definitions for organizational culture, scholars have proposed different definitions of strong cultures and their attributes. Strong culture has been identified as “stable and more intense,”³⁴ “homogenous,”³⁵ and “coherent.”³⁶ They have also been associated with wide consensus, for example, norms and values that are “widely shared among employees.”³⁷ Furthermore, strong cultures reflect an organization’s sense of mission, long-term vision, and adaptability to change.³⁸ Three key variables have been identified as being potentially related to the overall strength of a culture: who accepts the dominant value set, how strongly or deeply these values are held by employees, and for how long the values have been dominant within an organization.³⁹

An example of a strong organizational culture that has led to continued success is that of Southwest Airlines. Southwest has consistently outperformed its competitors by simultaneously keeping costs low and customer and employee satisfaction high. This is due largely to its strong organizational culture. This can be characterized as being informal or relaxed, and is manifested in terms of an enjoyable work environment. For example, the CEO personally recognizes birthdays, births, and weddings with cards and notes to make employees feel valued and acknowledged. The core value underlying Southwest’s organizational culture is that employees are the number one priority, and this is the foundation for the airline’s service model. The inference is that the strong organizational culture is positively related to high work performance and that this represents a competitive advantage the company has been able to maintain.

Research suggests that four conditions are necessary for any asset to lead to superior and sustainable performance or a competitive advantage.⁴⁰ To the extent that a strong corporate culture represents an asset, culture must thus meet these conditions. First, the asset must be valuable, meaning that it enables an organization to “do things and behave in ways

to add economic value to the firm."⁴¹ It must, in essence, be measurable (e.g., in terms of sales or profits margins) or enable a firm to "take advantage of an opportunity" in the environment.⁴² Second, it must be rare in that it has unique characteristics which are "not common" to other firms in the marketplace.⁴³ Third, it must be imperfectly imitable by competitors. In other words, whereas many elements of culture may be visible and appear to be imitable (e.g., allowing dogs in the workplace seems to be an increasing trend in the last five years according to many practitioner discussions of culture), it is the integration and combination of various factors that make up a culture that make it difficult to replicate. Thus, even if the first two conditions can be satisfied (e.g., adding economic value and being rare), they will not lead to sustainable competitive advantage and superior performance if they are easily imitable and can be copied. A final condition is that no perfect substitutes for the asset should exist, making it even more difficult to imitate.⁴⁴ Although the natural tendency may be to notice visible artifacts or surface-level attributes of culture such as office space and design (e.g., Google's bean bag chairs, IDEO's bicycles hanging from the ceiling), these may reflect but do not define an organization's culture.

Other factors may support the sustainability of organizational culture as a competitive advantage, such as geographic location⁴⁵ or the extent to which new employees capture and adapt to a culture, thereby ensuring its continuation over the years even if management changes.⁴⁶ From an internal standpoint, consistent values and methods of doing business, and goal alignment across the organization enhances the likelihood of creating a competitive advantage, as well as enhancing the visibility of the culture among those outside the organization.⁴⁷ The fact that scholars have voiced different opinions and created a variety of models concerning the influence of strong culture on competitiveness demonstrates the importance of the culture concept but also highlights the fact that it is not yet fully understood.

EXISTING FRAMEWORKS

The review of selected research on organizational culture reveals many common elements, variables, and implications. In addition to definitions and descriptions of culture and its links to performance and competitive advantage, the research provides useful conceptual frameworks and models. Whereas some scholars have developed models of the levels of organizational culture,⁴⁸ others have created models representing necessary conditions to create a competitive advantage and high performance,⁴⁹ or implications of organizational culture. The latter cover a wide array of elements from shared history⁵⁰ and joint experiences⁵¹ to management actions,⁵² leadership, and human resource practices.⁵³ Common elements,

however, include defining culture and its key dimensions.⁵⁴ Most frameworks tend to focus on internal organizational factors associated with the building or development of culture, including human resource practices, top management practices, and the firm's history and experiences. A few consider external factors and relate these to achieving competitive advantage.⁵⁵ The models generally suggest that organizations that encourage a strong culture will tend to have strong performance. The implied mantra is "do the right thing and good results will be part of the outcome."

Among the most discussed variables in scholarly frameworks are management actions and behaviors and how they are related to organizational culture and can ultimately lead to strong culture and success. Whereas Fiol and O'Reilly stress that organizational culture is derived from management behavior patterns, actions, beliefs, propositions and values, Ulrich and Lake focus on how human resource practices (set up by managers) may influence internal aspects of organizational culture.⁵⁶ They suggest that leaders who inculcate a shared mindset within the organization and encourage corresponding human resource practices may promote a capacity for change at all levels of the organization. This moves the discussion of culture from development to long-term sustainability and management. Both of these variables, management and human resource practices, are internal factors related to organizational culture. As described by O'Reilly, the norms and social realities implemented within the company, through management and human resources, may relate to a company's strategy and organizational commitment, which contribute to a sustainable competitive advantage.⁵⁷ In his framework, O'Reilly states that organizational commitment, comprising compliance, identification, and internalization, need to be accepted by management and employees to encourage successful performance of a company. The multidimensional culture framework by Marcoulides and Heck is less specific in stating what influences different factors of organizational culture.⁵⁸ They suggest that five interrelated variables may be associated with organizational performance: organizational structure and purpose/organizational values, which may influence task organization, worker attitudes and organizational climate, which in turn influence performance.

Although most of the frameworks focus on internal factors, Ulrich and Lake also refer to external variables that may impact the possibility of creating a competitive advantage.⁵⁹ They suggest that change and competition are two external factors that could potentially influence how and when a competitive advantage emerges, implying that the road to competitive advantage is volatile and can be externally influenced. For example, significant recent changes within the mobile phone industry have knocked Nokia, the early market leader, from its top position. Such shifts in the competitive market place can delay or speed up the achieving of competitive advantage by a given organization. The actions of competitors

represent another factor that can change this timing, and suggests that a strong internal culture alone does not necessarily lead to a competitive advantage.

In summary, while the research covers a wide array of elements and influences on organizational culture, it does not draw consistent or comprehensive connections with performance or the establishment of competitive advantage. Additionally, existing frameworks and models focus on isolated dimensions of organizational culture rather than on combining them to build a more complete picture of organizational culture.

WHAT'S MISSING?

The research on organizational culture started in earnest in the 1980s and blossomed during the 1990s and 2000s. Recent literature, at least from a scholarly perspective, has been less voluminous. Perhaps the notion of culture as an influence on organizational performance is now so widely accepted that there is little need for additional research. Earlier literature suggests that at least conceptually, scholars assume a positive relationship between organizational culture (especially if strong) and performance. Indeed, in a recent, albeit informal, survey of participants in an executive MBA program with more than 300 combined years of managerial experience, none questioned the assumption of culture being critical and useful as a way to create competitive advantage. Has it become so much a part of management thinking that we understand all we need to? In an effort to avoid complacency, should we not periodically ask if something is amiss or perhaps missing? On (too) many occasions, research based upon a long history of solid evidence has been questioned, and conclusions sometimes overturned. From Copernicus quietly questioning the orbit of the earth to Darwin's challenge of human development to discoveries of new planets and reclassification of known planets (e.g., Pluto), scientific research has a tradition of reviewing what may or may not still hold validity.

In management, similar paradigm shifts may be less dramatic, yet questions about assumptions have emerged. Books and ideas from the 1980s and 1990s caused shifts in thinking but some of their conclusions now seem outdated. Ouchi's *Theory Z*, which focused on building employee consensus and involvement in organizations, offered what seemed at the time to be views about motivation that took the business world by storm.⁶⁰ Several consultant/researcher based books have also shaken long-held beliefs or helped scholars and managers look at questions in new ways. Peters and Waterman's *In Search of Excellence* raised the question of why some firms appear to perform well over time and others do not.⁶¹ Jim Collins's *Good to Great* took the question further, comparing firms in similar industries to identify characteristics that seemed to distinguish ones that had become "great" from those that remained just "good."⁶² Peter

Drucker also questioned the ways managers operate and suggested alternate approaches or, at a minimum, that leaders ask different questions.⁶³ Each posed what seemed to be simple questions and found sometimes unexpected answers.

Although we would like to be able to follow in the footsteps of some of these works, we do not presume to be asking or answering fundamental questions of management in this chapter. Our goal is not to challenge the generally accepted assumption that culture and organizational performance are linked. Rather, our goal is to consider what might be missing in the literature or might be pursued in future research to strengthen our understanding. As is likely common with any new research, those at the forefront of early research on culture and performance seemed to be “certain” of the links they found between the two variables. With more research, however, scholars often become less definite,⁶⁴ and as described earlier, shifts have occurred in characterizing the dimensions of culture or when it can be a source of advantage. In this section, we look at what else might be useful to understand about the links among culture, performance, and competitive advantage. We suggest three areas that might be examined more closely, and raise questions that could be pursued. First, how does knowledge about links between culture and performance relate to non-Western (North American and European) contexts? What, for example, does literature based on experience in Asia, Latin America, or Africa reveal about the role of organizational culture on competitive advantage and performance, and is this the same as in the Western context? Second, is it possible to have a strong, positive culture, yet poor performance? Conversely, can an organization have high performance yet poor or negative culture? Under what conditions might these situations occur? Finally, the literature focuses heavily on the importance of creating strong culture, but there is less evidence or discussion of how to sustain this over time. What mechanisms are needed and how might these vary across different types of organizations or sectors?

CULTURE AND PERFORMANCE IN AN INTERNATIONAL CONTEXT

The literature on culture and organizational performance from an international perspective is deep in some areas but less so in others. Moreover, like much of the other literature on culture, it is somewhat dated. Researchers from France and the United Kingdom have, for example, found that the connection between culture and growth was stronger than that between culture and performance.⁶⁵ Researchers there also found that leadership and culture are linked, certain types of leaders encouraging different types of culture, and certain organizational cultures encouraging leaders that support those cultures.⁶⁶ Lee and Yu examined relationships

between culture and organizational performance in Singaporean firms, and found that industry sector may affect the types of cultures that emerge (e.g., team oriented in hospitals, task oriented in insurance firms, and humanistic oriented in manufacturing firms).⁶⁷ In addition, the strength of the culture was positively related to performance in firms that were able to adapt to changes in the environment.

Although researchers are urging more work to be done by indigenous scholars within developing or emerging economies, especially regions like Latin America, Africa, or South and Southeast Asia, less is still known about culture in these parts of the world than in Western Europe and North America. Further, although culture and performance have been examined from the perspective of international management and multinational firms, they have received less attention from the perspective of local firms in emerging economies. Given the growth of emerging economies, more data that reflect companies from Asia, South Asia, and Latin America should be available to examine. This opens the possibility of exploring entirely new dimensions of culture. For example, does indigenous culture in areas such as East and Southeast Asia, where a strong Confucian influence remains, influence the development of strong organizational cultures, and how does this relate to performance? Many transition economies that are moving from planned to market-based systems have now had 20 years of (generally) open economic conditions. Yet in countries such as Vietnam, where culture and a history of traditional patterns of behavior dominate (e.g., hierarchy, being told versus taking initiative, jumping at opportunities regardless of their strategic value),⁶⁸ organizational culture may be hard to establish independently of the existing (strong) local culture. Without further research, we have no clear sense of the issues and challenges; yet as firms operate globally, greater understanding will be useful.

In contrast to the relative dearth of research coming out of emerging economies, there is quite a body of work on the impact of mergers/acquisitions on culture and performance, including some in an international context.⁶⁹ As international mergers and acquisitions have increased in the last two decades, they have faced challenges of having to blend cultures, and performance has not always been as hoped for. This should not, however, come as a surprise. A sizeable literature on mergers and acquisitions suggests that even in domestic acquisitions and mergers, culture plays a critical role in long-term success, which has traditionally been quite low.⁷⁰ According to a survey of 200 top European executives, compatibility and "ability to integrate the new company" was the most important success factor, even more important than financial performance.⁷¹

One of the most studied failures in terms of cultures not merging was the Daimler-Chrysler merger (which was revealed to be more an acquisition of Chrysler, despite the public relations campaign to the contrary). Within one year of the 1998 "merger," only one-third of the Chrysler executives

remained. Within two years, all the top U.S. executives had left, retired, or were fired, and board size fell from 17 to 13, of which 8 were Germans and only 5 were from the United States. Ultimately, Daimler sold Chrysler to Cerberus Capital in 2007. A major reason for the failure according to both scholars and executives who were willing to comment on it was that the organizational cultures of the German Daimler and American Chrysler were like oil and water, completely incompatible and unable to mesh. Like many other such deals, cultural compatibility is critical but was (and continues to be) explored too lightly during the due diligence phase.⁷² This case serves to illustrate the need for greater investigation into the role that culture plays (or does not play) in supporting performance and competitive advantage in an international context.

MISMATCHES BETWEEN CULTURE AND PERFORMANCE

As discussed earlier, the research suggests that strong culture is linked to high performance. But can organizations perform well when they do not have what management scholars might consider to be a strong or positive culture, or conversely, can an organization have a strong culture yet encounter employee turnover or poor performance? Under what conditions might these situations occur? One study did reveal that this is possible, and the one variable that seemed to help explain the difference was whether firms had cultures that were appropriate for their industry sectors and environments.⁷³ Beyond that, we have little clear evidence or indication of the conditions under which these counterintuitive outcomes may occur, whether it occurs in certain sectors, during certain points within economic cycles, or in periods of political or technological instability or other environmental states. Yet, it appears that such situations do occur, as we discuss briefly in the following two examples.

High Performance, Unclear Culture

At a recent meeting of eight CEOs from a variety of industry sectors including sports, software, the arts, and government, one said that culture is so important for his firm that “if you look away for just a moment, it can slip from your fingers.” The others nodded in agreement and shared stories about how they focused daily on making sure the message of culture was clear within their organizations. But what if it is not viewed as being so critical? Can an organization with an unclear or weak culture perform well? What if top management seems somewhat oblivious about the role of culture and its importance? During the financial crisis of 2007–2009, several organizations experienced major declines in performance. Discussion was rampant about whether the risk-taking cultures of investment banks led in part to the crisis, as described, for example, in *Too Big to*

*Fail.*⁷⁴ One bank that has received much attention over the years is Goldman Sachs. As far back as 1999, the book *Long-Term Greedy* characterized some Goldman bankers in less than positive terms.⁷⁵ Even during the crisis, however, the bank performed well compared to many of its peers. In a 2010 Charlie Rose show interview, Goldman's CEO Lloyd Blankfein was asked what he thought had led to the behaviors that caused risky investments and decisions, where the "callousness" in the e-mails read before a Congressional committee stemmed from, and whether it was a "single individual" or if there was a culture of "callousness." Blankfein waffled, almost as though the idea of culture had not been something he had considered or focused on as a CEO, responding,

we have to be thoughtful about that [the culture] . . . I can't at this point . . . I can't exclude [the culture] . . . there are 35,000 people at the firm . . .

When asked what does contribute to Goldman's performance. Blankfein's response was that

we recruit and hire the best people and we retain them . . . because we get people who are really interested in doing something that they think is good for the public. . . . We get a kind of person who wants to be influential . . . the people would like to do well for themselves but at the height of their careers go into public service.

So just how important is a strong culture to performance? Other than anecdotal evidence, we have little clear information about the extent to which culture contributes to high performance or competitive advantage.

Strong Culture but Potential Turnover

One of the best-performing organizations in the United States, which has over the last five years worked to build a culture of innovation, problem-solving mindset, accountability, and responsibility, has long attracted excellent people. For entry-level positions, it consistently receives 100 applications per job opening. One middle manager at a different organization reported that seeing the CEO go on television five years ago to admit that the organization had made a mistake was a trigger point for him. That a senior manager would publicly apologize said to him that this was a place with a culture of "doing things right." He decided to leave his existing employer and take a lower-level position at the organization in question just to be able to join an organization with a better culture. Since he switched organizations five years ago, he has moved back up the ranks and continues to believe it was the best career decision he ever made.

When the CEO took over just five years ago, he realized the organization had what he called “the cancer of complacency.” It was a good organization and had been well run for 20 years by his predecessor; thus when a crisis hit, the assumption was that one employee who did not follow policy was the cause for the mistake and should be fired. The CEO, however, began looking in more depth and concluded that the culture needed to change to one where the “good enough” attitude was unacceptable. Over an 18-month period, the unit’s supervisors developed three key pillars that were a key to building and maintaining high performance and that became the foundation for a culture of constant improvement over the next several years. They included, for example, being sure that staff members were considered first in important decisions, and that the concerns of the broader community in which the organization operated were also considered in the decision-making process. The culture has helped spread a reputation among potential applicants as well as customers that this government agency is becoming the “agency of choice” when people need its services. It has introduced several innovations that none of its peer institutions have adopted, saving several hundred thousand dollars annually.

Yet even this organization, with quantifiable benefits stemming from an innovative culture and widely acknowledged positive and supportive culture, found itself stymied within the last year. Circumstances beyond its control led to a change in the market area it would cover. A peer organization’s members began rumors that lower-level employees with short tenure would lose their jobs and should jump ship to ensure they had a job. Further, and especially irritating to senior management, was that “recruitment” took place during work hours when employees of the two organizations happened to meet on overlapping work or job sites. The result was that four employees did leave. The stated reason was that pension benefits at the competitor organization were better even though the culture, which employees would experience every day, was not as strong. So can culture be a competitive advantage? Anecdotal evidence suggests that although it can, additional research is needed to better understand its leverage and its effects and influence.

HOW TO SUSTAIN A CULTURE OVER TIME?

A third area where more research is needed is the sustainability of culture over time. Although existing literature discusses the elements of culture and how to create and build a culture, there is less discussion of how to sustain a strong culture over time. Leaders of successful organizations who recognize how organizational culture contributes to performance also realize how fragile it can be. They also use quite different approaches to sustaining and strengthening culture, depending upon the members of the organization and where the organization is in its development. We present two short case studies of organizations that have each demonstrated

several years of high performance and creativity to illustrate how some organizations seek to sustain culture. One case comes from a university athletic setting, many of whose organizational members are students (young) and transient (25% turnover, new students each year). The second case is of an organization founded 30 years ago but that has doubled in size over a two-year period, making it harder for the founder/CEO (the original creator of the culture) to touch each person individually.

The Test of Culture

Chris Petersen is the coach of the Boise State University football team. He has been rated by different organizations as being one of the best coaches in the United States for three years running, and his team consistently ends the season with a high ranking and increasing attention. He places great emphasis on the crucial aspect of “system” or culture in his program, choosing players and coaches largely on whether they are “OKG’s” or “our kinda guy.” This means players and coaches who in his words are “high output, low ego,” and understand and are willing to put in hard work and willing be part of a team. The system or culture focuses on building integrity, good citizens, and being honest and transparent, both for the coaching staff and players. His coaches seek recruits who are “great kids and good football players” and who are also good students (he claims that members of the football team have among the highest grade point averages (GPA) of any athletes on campus). The program follows a “pyramid of success” based upon a legendary basketball coach’s ideas⁷⁶ and includes basic values and expectations, ways to act, and specific goals that the team and the program seeks to achieve in any given year (e.g., achieving a certain number of 3.0 GPAs within the team, winning an end-of-season “bowl” game). Coaches talk about the culture and values of the program, model what they mean in their interactions with players, and seek other ways they can to highlight and reinforce their message. One of the simplest ways they do this can be seen only behind the scenes, away from journalists and crowds.

In the typically three- to four-hour-long evening meetings that coaches hold after practice each day during the fall season, coaches review film taken during practice and consider what plays they will put into the upcoming game. By the end of the evening meeting to discuss the offense, only the key coaches remain—the offensive coordinator, assistant coordinator, and Coach Petersen, whose background is in offense. During one meeting, a graduate assistant (GA) entered the room with a sheet of paper that required the head coach’s review and signature. To an outsider (a professor) sitting in the room, the assumption was that the paper was a listing of the GA’s hours that the coach had to verify. Instead, the paper was a test that players would take the next day on a few of the program’s

values. Each week, a test focuses on some aspect of part of the program's core values, and as the semester progresses, the players have to know and understand more about these values. Because the values and culture are so important to the program's success, modeling behavior, instilling integrity in practice sessions and interactions with players, and even having frequent short tests on the values all help sustain the culture. According to Coach Petersen, by their third year in the program, players ace the tests because they are steeped in and know the culture well, and the values become a part of how they operate.

Culture and Subculture

Healthwise is a not-for-profit international provider of online health information and tools (it is, for example, a content provider for WebMD), founded over 35 years ago by Don Kemper, who remains CEO. Building and sustaining a culture focused on respect, inclusiveness, and transparency has been a hallmark of the organization since its beginning. It continues to be crucial to the six-person executive team, which spends at least two hours a month discussing the organization's culture and how to preserve and nurture it even as the organization changes. Some key elements of the culture involve a focus on getting the job done, not just "spending time," which provides flexibility in work hours and location for employees. Transparency of information encourages (perhaps more than some would like) frequent meetings to ensure that everyone who needs to understand key issues. The culture is constantly discussed within the organization and modeled by managers. When deviations from it emerge, people take the time to talk about how or whether certain actions enhance or hurt the culture.

Job applicants (and aspirants who wish to apply for a job someday) mention its culture as a major attraction. Senior managers say that depending on the position, the organization routinely receives 50–500 applications. In 2010, for example, 120 people applied within 24 hours for a receptionist. For all jobs, the interview/recruitment process is extensive, comprehensive, and grueling for both recruiters and applicants. For those who pass the initial screening, there is a phone interview followed by a day of in-person interviews with three to four people in the functional job area. The next step consists of a full day of interviews with 10–12 individuals at all levels and several areas of the organization. If the applicant makes it through this stage in the process, the final stage involves a case study or assignment that replicates job tasks. The process itself conveys much about what the organization's members consider important, and in particular, the criticality of finding people who fit the organization's culture. The success rate is high, and turnover consists mainly of employees who retire or move from the area. Rarely do people leave for other reasons.

Nevertheless, as the organization grew beyond a tipping point of about 150 people,⁷⁷ the CEO sensed changes, and the semiannual survey of employees revealed that several mentioned a “decline” in the Healthwise culture. As Kemper investigated further, he realized that teams were developing their own (sub)cultures and employees were understandably feeling closer to a “team culture” than to the culture of the organization as a whole. In response, organization leaders began to urge team managers to create subcultures that work for the teams, but with an understanding that these cultures should mesh with the organizational culture but not be dominated by it. Even more telling is the fact that when the surveys are done, there are typically several pages of handwritten comments, both positive and negative. To respond to the comments and to reinforce one of the key elements of the Healthwise culture, transparency, the executive team began holding regular “fireside chats” during the lunch period. During these chats, each executive with responsibility for an area that received a negative comment responded to the comments. Specifically, what would the organization do if action was possible, or if not, why was change not possible. Again, the process helps to reinforce values of respect, inclusiveness, and transparency and communicates that any question or issue is open for discussion. Employees may not always agree with decisions but they will know why managers make them.

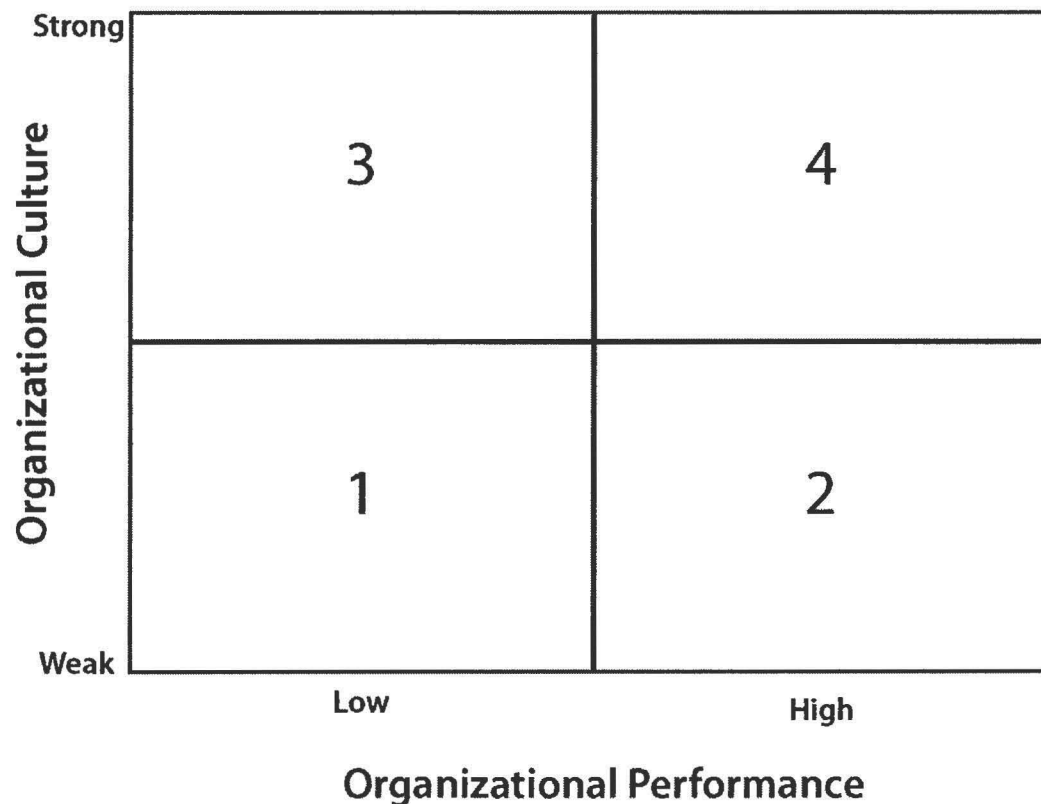
WHERE NEXT?

In this final section of the chapter, we propose ideas for possible research questions based both on existing research and on areas that could generate new knowledge, particularly the link between culture and performance and the extent to which this link may hold. Although there has been much research on the relationship between strong culture and high levels of performance and some on the relationship between poor culture and low performance, what about the other two combinations? In particular, under what circumstances might an organization have superior performance despite a poor or weak culture, and why might an organization with a strong culture experience poor performance? Are these situations characteristic of transitions (to low performance/weak culture or high performance/strong culture) or are they positions worth examining and understanding in and of themselves? Starting with the “excellent firms” research of Peters and Waterman,⁷⁸ we see evidence of how performance changes over time. Many of the “excellent companies” with strong (at the time) cultures no longer exist or can be considered to be exemplars of high performers. This highlights the challenge of maintaining a strong culture and raises two important questions: are cycles in the relationship between culture and performance the norm and does culture shift during the cycle and if so, what influences the shifts. Potentially more interesting is the question of whether organizations can move themselves from one position

to another if so desired. We raise these questions not because they are new but because so little research has been done on them. An exception was Kotter and Heskett's book *Corporate Culture and Performance*, in which they analyzed and outlined several, at that point timely, examples to support their hypothesis that there is a positive but weak correlation between corporate culture and performance.⁷⁹ Indeed, they argued that the statement "strong cultures create excellent performance" was questionable.

To better map the possible relationships between culture and performance, we use a 2 × 2 matrix (Figure 11.1) to illustrate the combinations of performance (high, low) and culture (strong, weak). Each quadrant represents a position that an organization may find itself in. Based on the relationship between culture and performance described earlier we might expect to find organizations in quadrants 1 and 4. Most literature would suggest that quadrant 4 represents the most desirable scenario, but for firms in this quadrant, is culture also a competitive advantage? In contrast, what are the implications for organizations that find themselves in quadrant 1? And what is the significance of organizations in either of the other two quadrants?

Figure 11.1
Positions for Organizations



Kotter and Heskett noted that at the time of their study (1977–1988) several companies fell into quadrants 2 and 3. They claimed that there were several reasons for this. First, high performance in a weak culture organization may result during and after an unrelated merger or acquisition that improves economic performance but does not generate a “cohesive” organizational culture, at least early in the arrangement. Another reason is that high-performing organizations may shift from having a strong to a weak culture as a result of “arrogance,” “bureaucratization,” or “complacency,” defined as the failure to adapt to change and the erosion of the culture fit over time. The Ada County sheriff’s office in Boise, Idaho, provides a recent case of complacency and a weakened culture (quadrant 2), which ultimately allowed the most dangerous inmate in the jail to escape.⁸⁰ Although many people chalked up the escape to poor security, the sheriff on the other hand looked into the organization’s culture and determined that the breach was more a result of a past culture of “we are good and there’s no reason to change.” As a result, he and his senior managers initiated discussions that reviewed and dramatically changed the culture. By asking “what is the purpose of this organization,” the agency developed three key values: safety of staff, security of the facility, and well-being of inmates. Having clarity in the organization’s values now drives the actions and decisions of every member of the organization. In addition, and in part due to the willingness to question the organization’s purpose and operations, a more innovative climate is emerging, with members of the organization trying out new ways of doing things within their units (quadrant 4). As a result, the agency has become one that peers from the rest of the country look to for new ideas.

If we look to a 30-year-old study as a source of possible research questions today, it is important to ask how well the observations from the study have held up. How have the cultures and performance of the companies fared over the last 20 years? Have there been shifts within the matrix? The results are, perhaps, to be expected. Some of the high-performing organizations or organizations with strong cultures have either disappeared (e.g., H.F. Ahmanson) or lost significant market share (e.g., Hewlett-Packard), or would no longer be considered strong performers today based on culture and financial performance. H.F. Ahmanson was a large savings and loan association, also known under the name of one of its subsidiaries, Home Savings of America. They had the highest corporate culture score in their category but were classified as having “relatively strong cultures and relatively weak performance.” However, the company was acquired by Washington Mutual in 1998 and ceased to exist. One reason for their acquisition might have been that despite their strong culture, the organization was not sustainable, absent strong financial performance. Similarly, Hewlett-Packard had a high corporate culture score and a decent score on performance. Over the years, however, the company went through

significant culture change stemming largely from the leaders' shifting focus (invention, then focus on the CEO during the Carly Fiorina years, and severe cost cutting during the Mark Hurd era) and performance declines. Recently, performance has been mixed, with some improvement, but even more recently it has become obvious what happens as a result of erratic strategic decisions (and another new CEO).

The questions proposed here highlight the fact that there has not been a comparable analysis of organizations and their performance and cultural strength since the early 1990s, making it difficult to use recent examples to illustrate shifts within the matrix. Although the matrix offers an outline based on where most of the research on organizational culture has been conducted, it is not comprehensive enough to serve as a new model. It can, however, be used as a starting point to analyze important aspects in the research process. Although Kotter and Heskett's corporate examples might be a little outdated, the results of their study are still relevant today and can be used as a starting point in developing a new framework on organizational culture. Newer and more up-to-date research on today's top and low performers can also contribute to updating and developing a theory of organizational culture and the importance of organizational culture for success. Research topics follow cycles of being more in or out of fashion; organizational culture was a major focus for 20+ years and, as mentioned earlier, may be so ingrained in the managerial thinking that it demands less attention. But perhaps because of its deep-seated and long-term existence, it makes sense to revisit its role.

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